

A Report on Missouri's Economic Condition



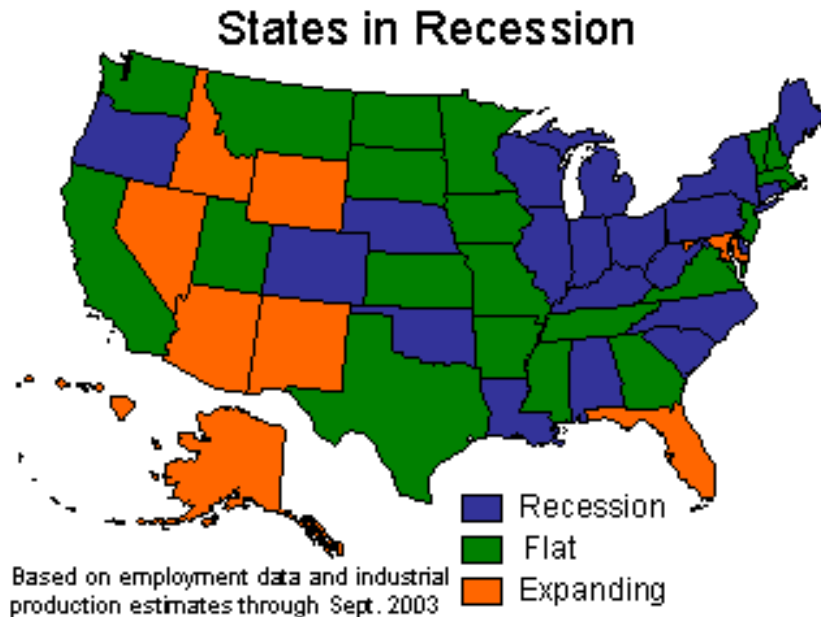
December 2003



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It has been two years since the national recession officially ended.¹ Typically, considerable economic growth would have taken place during such a period of recovery, with the economy settling into a period of expansion. Since November 2001, however, the economy has been dogged by lethargic conditions. These have been felt most keenly in the labor markets. The term “jobless recovery” has been widely used to refer to this situation. It is not just there has been no job growth during much of this post-recession period; employment has actually continued to drop in the U.S. and in many states.

Recent data have shown a stronger economy, both in the U.S. and in Missouri. Between July and October, national employment grew by 286,000 jobs, while Missouri employment was up by more than 25,000. Now that employment has begun to increase, there is hope that the “jobless recovery” is over and that a period of substantial recovery is finally in the offing. Economy.com, a national economic information and analysis service, has recently determined that Missouri is no longer in recession.² About 20 states, including Missouri neighbors Illinois, Kentucky, Nebraska, and Oklahoma, are judged to be still in recession.



Source: Economy.com

¹ The National Bureau of Economic Research's Business Cycle Dating Committee announced on July 17, 2003 that an economic trough had occurred in November 2001. This committee often waits for a long period after an apparent trough to ensure that any subsequent downturn in economic activity is part of a separate recession.

² Economy.com's Regional Outlook, November 19, 2003.

National Recession

The economic downturn that began in the U.S. in March 2001 was relatively mild and fairly short in duration.

Subsequent conditions have not been what would have been expected from such a short, mild recession.

The events of September 11 sent the economy spiraling downward and set in motion forces that have long reverberated through the economy. Travel-related industries, in particular, have still not recovered from that blow. As it turns out, this was only the first of a group of external shocks that have altered the path of economic recovery and contributed to the “jobless recovery.”

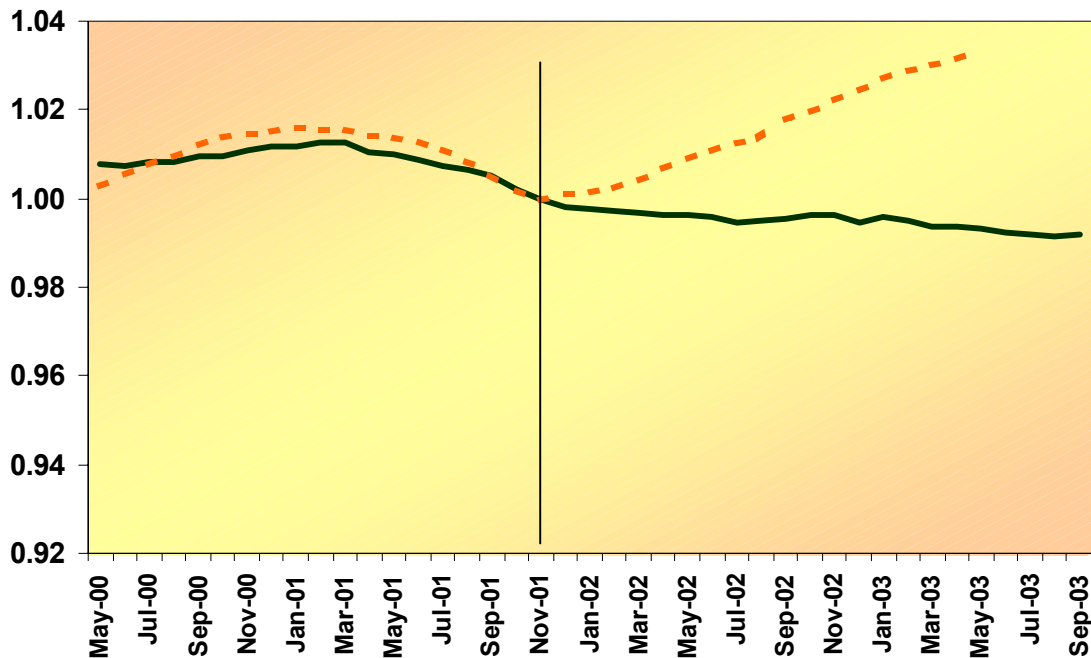
The second blow to hit the economy was the wave of corporate scandals, starting with the Enron bankruptcy. These events badly damaged investor confidence. How could a prudent investor know how to value a stock, when the company’s financial statements could not be trusted? The subsequent plunge in stock values had multiple effects. Consumption was probably reduced as a result of the wealth effect. Tax collections fell as there was less securities-related income to tax. Brokerages and other financial industries were forced to cut back.

The gloomy picture took its toll on overall consumer confidence as well. Other than automobiles (where low interest rates and generous incentives kept sales strong), consumer spending was lackluster at best. Sales remained strongest at value-related retailers, while department stores and other high-end retailers generally suffered, especially through a weak 2002 holiday season.

The third shock was associated with Iraq. While the threat of war loomed over the U.S., both consumers and businesses remained gloomy. Businesses, particularly, seemed unwilling to make major economic moves with the global uncertainty so great. Consumer confidence seemed very sensitive to developments in the war. Some initial news suggesting that the war might be longer than expected caused a drop in confidence, while the subsequent early end to hostilities led to sharp improvement. Continued involvement in Iraq, with American forces suffering deadly attacks daily, has helped keep consumer confidence from rising more sharply.

The nation’s economy has basically limped forward, with some economic measures showing reasonable gains. However, these gains have not been translated into increased employment, since increased productivity has generally allowed businesses to increase output without adding workers. With 2.7 million U.S. jobs lost between the peak of employment in February 2001 and its trough in July 2003, this period of sustained employment decline represents the longest in modern history – 29 months.

Movement of Employment Over Recessions



The dark line shows the movement of employment from 1999-2003 and the dotted line the average over the previous 6 national recessions.

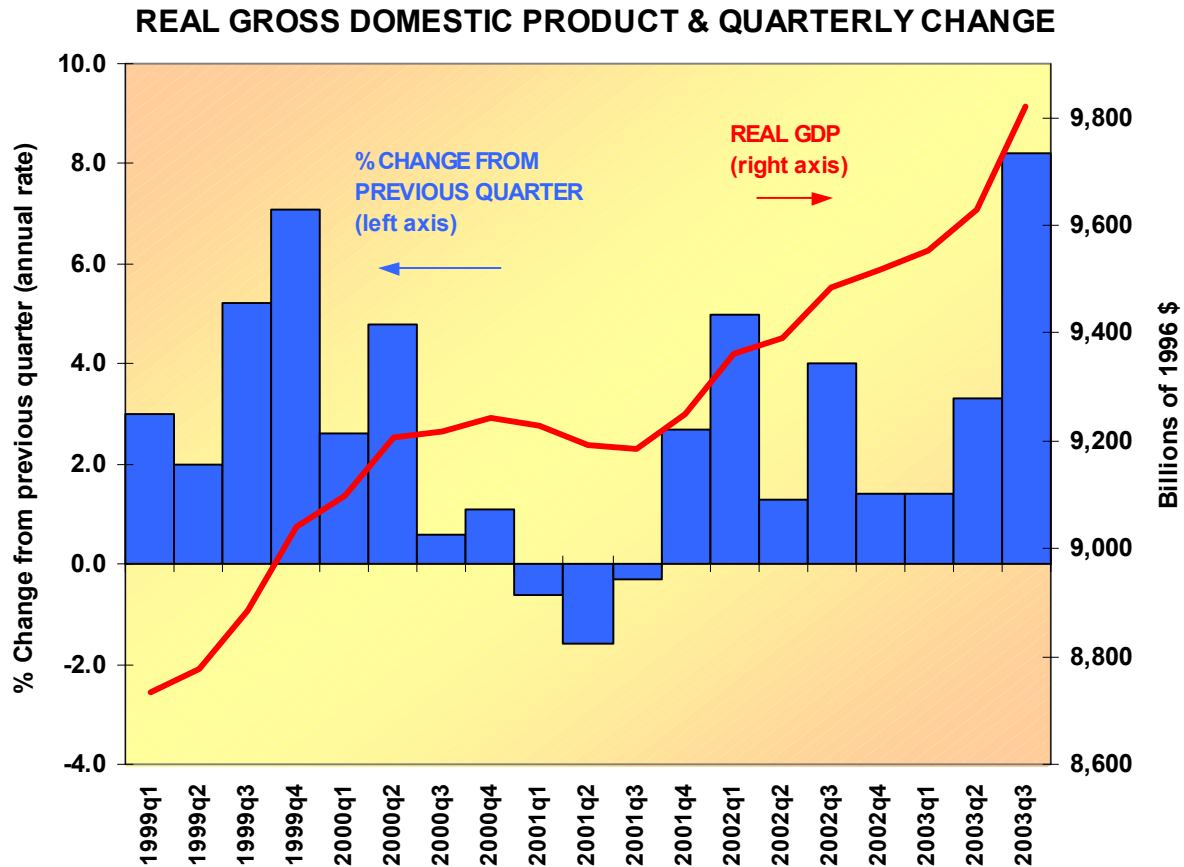
Source: National Bureau of Economic Research

Gross Domestic Product

Gross Domestic Product (GDP) is the broadest measure of economic conditions in the U.S. Output has been expanding since the 4th quarter of 2001. Because there was not a subsequent downturn in this measure, the NBER's Business Cycle Dating Committee finally determined that November 2001 represented a trough in economic activity rather than just a short-lived temporary improvement.

GDP growth since then has been irregular, with growth in three quarters being at less than a 1.5 percent annual rate. Still, the growth has continued and accelerated in the most recent two quarters.

The 3rd quarter's 8.2 percent annual rate (revised upward from the 7.2 percent advanced estimate) is the best performance in nearly 20 years. The strong performance came from the private sector and was not particularly dependent on defense or other government spending. There were signs of improvement in business investment, a key but heretofore lacking ingredient in the recipe for continued economic growth.



Source: U.S. Bureau of Economic Analysis

All in all, the 3rd quarter GDP data represent the best economic picture since the economy started to slow in the latter half of 2000. The consensus forecast now calls for 3 to 4 percent growth for the U.S. economy for the next year, which should be high enough to produce sustained and solid job growth.

Gross State Product (GSP) is the measure of value added in production by the labor and property located in a state. It is thus similar in concept to GDP and the most comprehensive measure of economic activity in states.

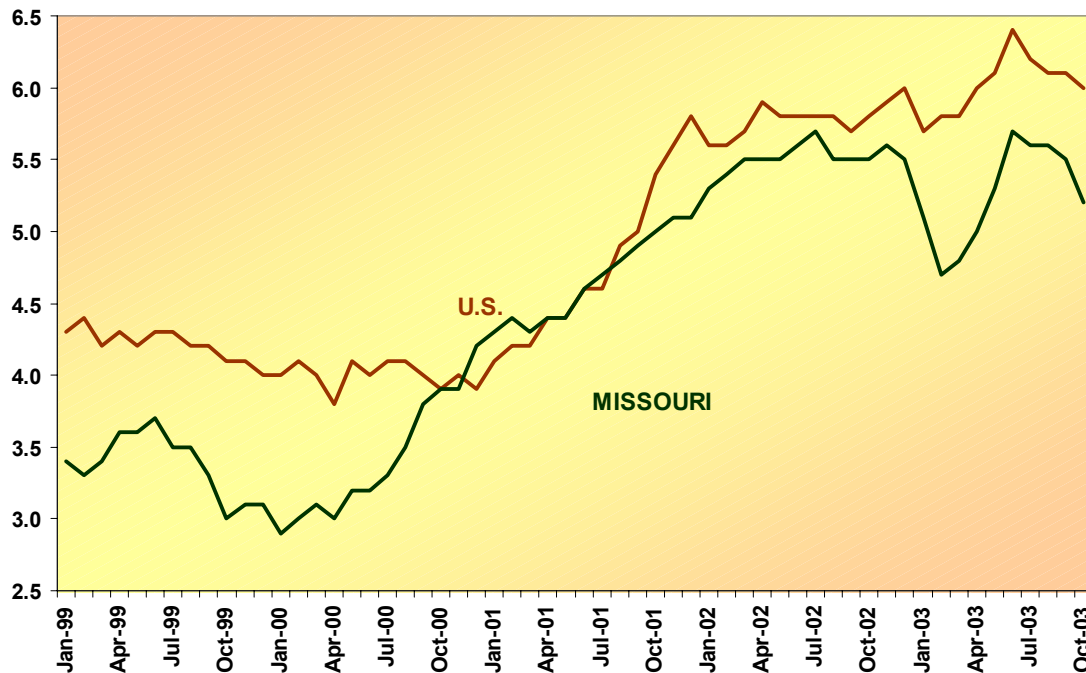
In 2001, the latest year for which data are available, GSP in Missouri was \$181.5 billion, making Missouri the 19th largest state economy in the U.S. Adjusted for inflation, Missouri GSP grew by 0.4 percent from 2000, the same as the national rate of growth. Missouri's growth placed it 24th among the states. The recession took its toll on GSP growth, slowing it in most states and causing it to fall in 20 others. Of Missouri's neighboring states, Arkansas, Illinois and Iowa saw GSP decreases.

Economic Indicators

Unemployment

Missouri's unemployment rate has generally been below the U.S. rate, sometimes by a half point or more. The state's rate peaked in July 2002 and again in June 2003 at 5.7 percent. The rate edged down after July and fell by three-tenths of a point in October to 5.2 percent. About 7,200 fewer Missourians are unemployed now than in October 2002. The national rate moved upward to a peak of 6.4 percent in June. It has since receded to 6.0 percent.

U.S. AND MISSOURI UNEMPLOYMENT RATE, SEASONALLY ADJUSTED



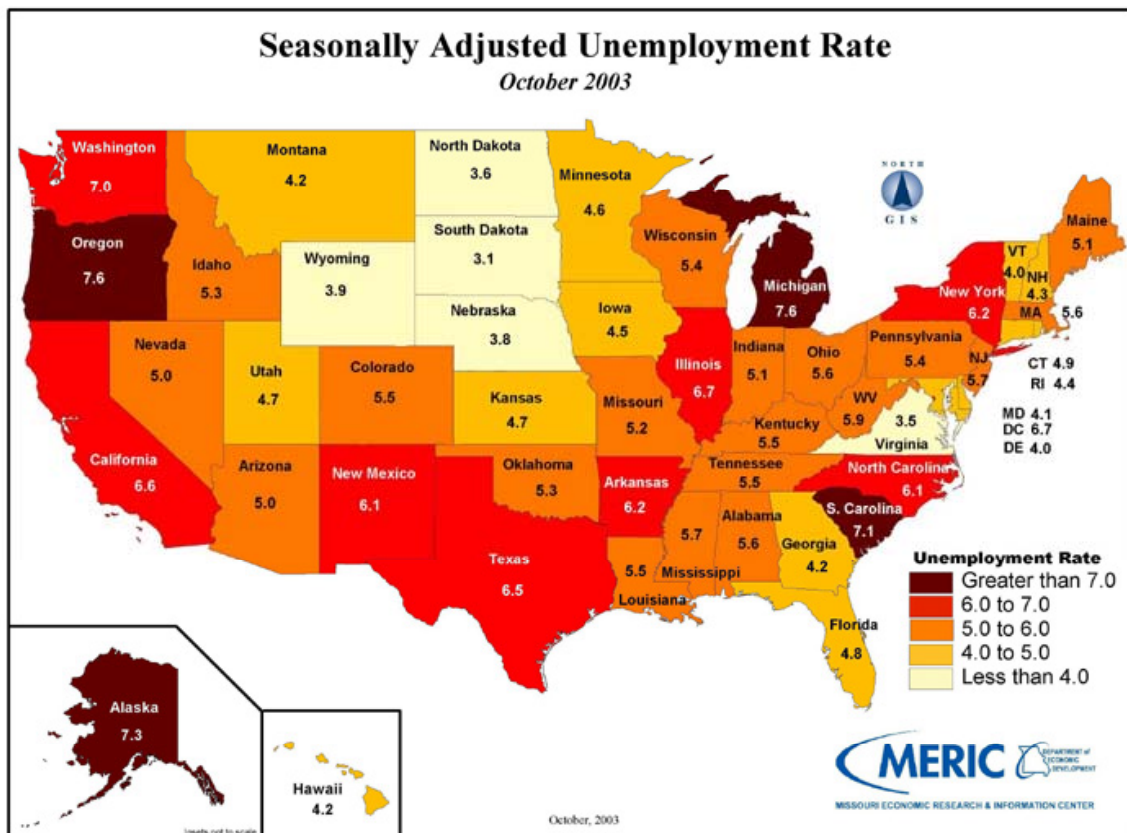
Source: U.S. Bureau of Labor Statistics

Missouri's unemployment rate in October 2003 ranked 24th lowest among the states and the District of Columbia.

Unemployment Rate

The unemployment rate is calculated by dividing the estimated number of unemployed people in the state by the civilian labor force. The result expresses unemployment as a percentage of the labor force.

Labor force and unemployment estimates for states come from a cooperative statistical program between the U.S. Department of Labor's Bureau of Labor Statistics (BLS) and the various states. (MERIC is the BLS affiliate in Missouri.) State data are developed using statistical models. The inputs to these models include monthly state-specific data from the Current Population Survey (CPS – a nationwide survey of households), Current Employment Statistics program (CES – survey of employers), and claims data from the unemployment insurance system.



Source: U.S. Bureau of Labor Statistics

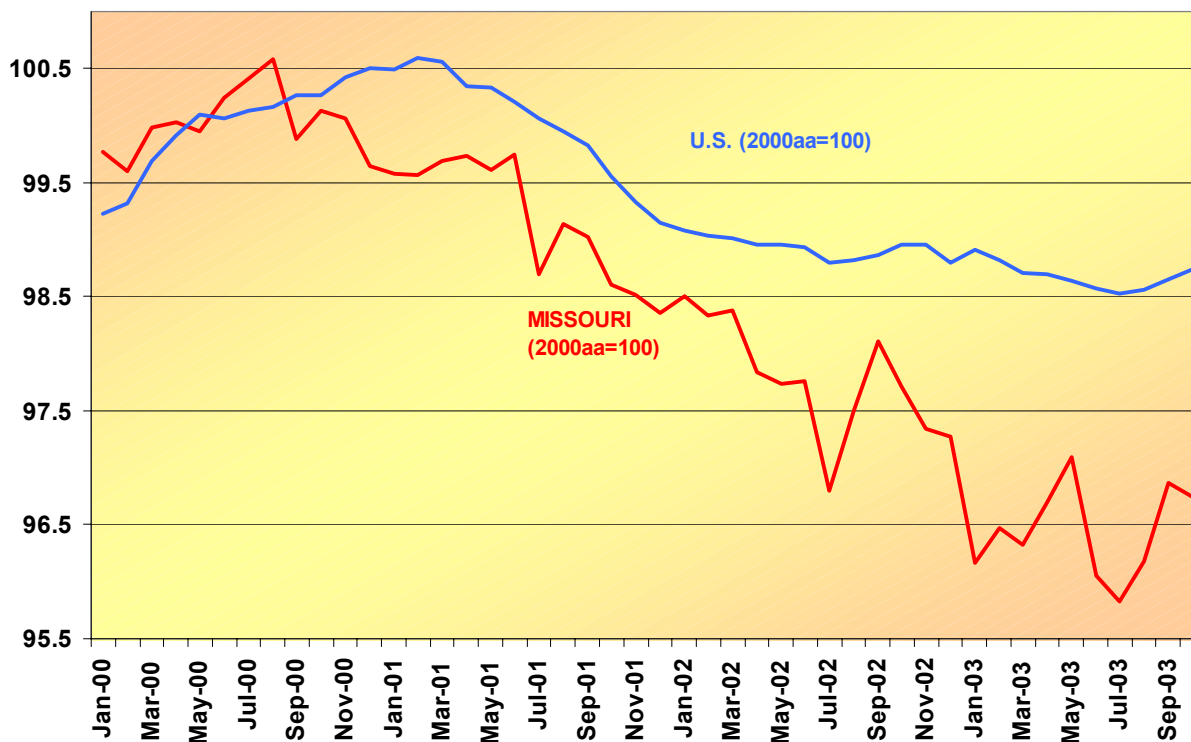
Employment

Payroll employment has fallen in most months since the recession began in March 2001 for both the U.S. and Missouri. There have been periods in which employment appeared to have stabilized or to have resumed growth, but these did not last. More recently, employment growth has resumed in both the U.S. and Missouri. Between July and October, national employment grew by 286,000 jobs, while Missouri employment was up by more than 25,000.

Since January 2003, Missouri employment is up by more than 18,000. National employment in October is still below the January level (by 220,000 jobs.) The recent increases in employment are very encouraging, carrying with them the hope that this is the beginning of sustained, substantial job growth to match overall economic growth.

Since the recession began in March 2001, nonfarm payroll employment has decreased in Missouri by slightly less than 3 percent. Massachusetts has had the largest relative decrease: 5.1 percent. Of Missouri's neighboring states, Illinois' decrease of slightly more than 3 percent was the largest. Nationwide, payrolls are down by almost 2.4 million, or nearly 2.0 percent.

U.S. AND MISSOURI PAYROLL EMPLOYMENT Index: 2000 annual average = 100



Source: MERIC and U.S. Bureau of Labor Statistics

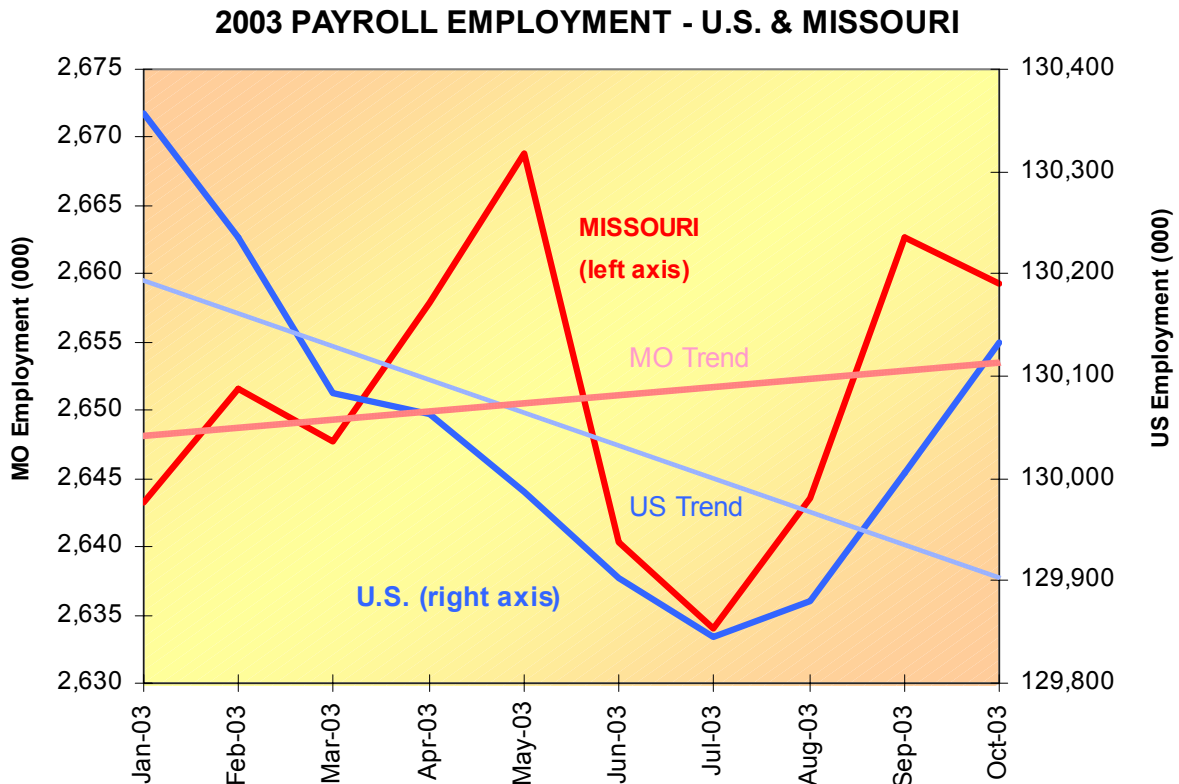
Index Numbers

Index numbers are used to indicate relative change, particularly over time. They are especially useful when comparing values where the magnitudes are significantly different. Many measures for Missouri are roughly 1/50 the size of the corresponding national measure. As an example, showing Missouri and national population change on the same chart would not be very useful, since the Missouri line would appear to be almost flat near the horizontal axis while the national line would show more change. To better compare, a base level for each variable is arbitrarily set at 100, and values are represented as a percentage of that base value.

The previous chart shows Missouri and U.S. nonfarm payroll employment data converted to index numbers, where the annual average value of each in the year 2000 is expressed as 100. (Index numbers for each observation are calculated by dividing their actual value by the 2000 annual average and multiplying by 100.)

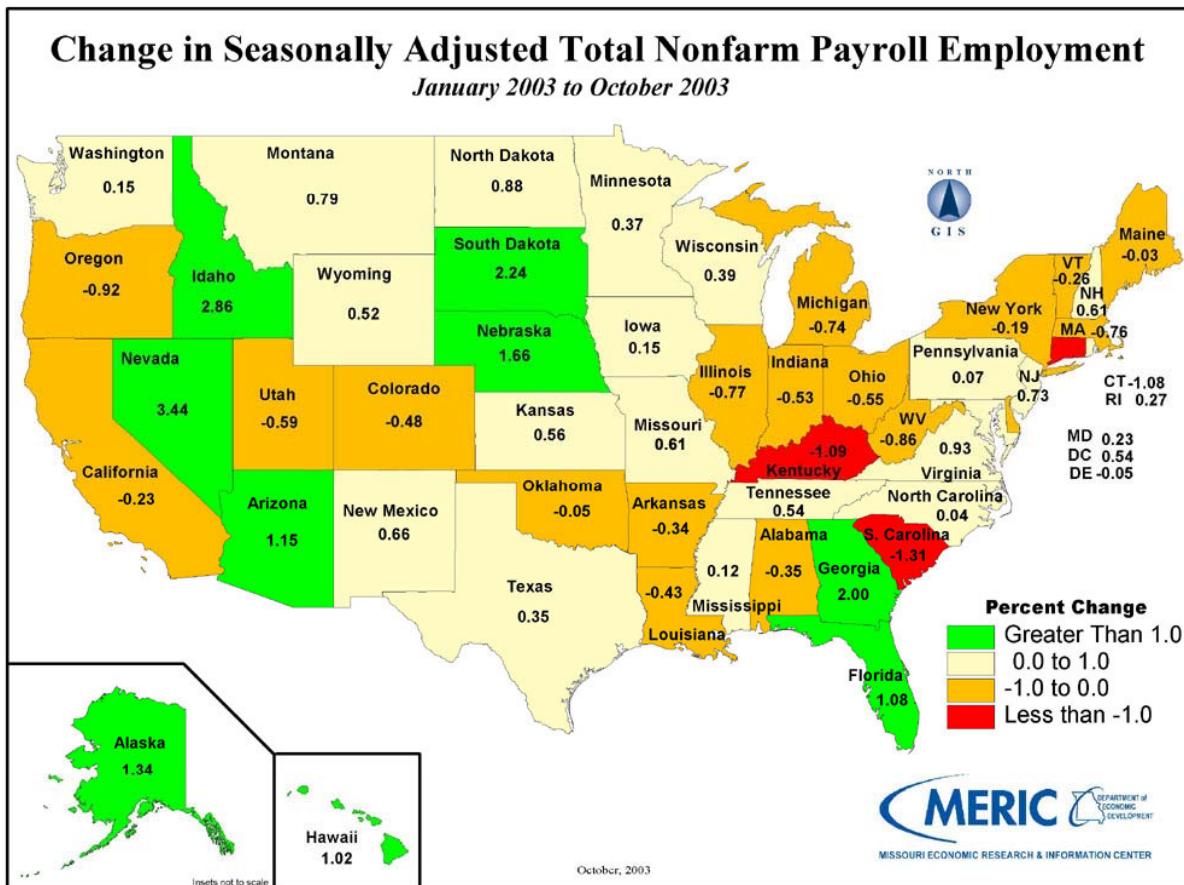
The chart shows Missouri employment decreasing more rapidly than national employment. Data for 2003 show Missouri employment to have dropped to about 96 percent of its value in the base year 2000, while national employment has remained near 98.5 percent of its 2000 value. Recently, Missouri employment has begun to increase, whereas national employment has remained flat.

Since the beginning of the year, Missouri payroll employment has been trending upward, despite a dip in the early summer months (see chart below.) National employment continued downward through July and has been headed upward since. The increases in the most recent three months have not yet been great enough to offset the decreases that occurred in the first half of the year. The result is a downward trend in U.S. employment since the beginning of the year. The chart also shows that there is more month-to-month variation in the Missouri data than in the national employment figures.



Source: MERIC and U.S. Bureau of Labor Statistics

Likewise, comparing Missouri's employment changes to other states continues to be a valuable way to analyze our state's economic condition. The majority of states experienced at least some employment loss associated with the national recession. There has been considerable variation in how states were affected by the recession and different shocks to the economy. Similarly, there has been considerable variation among states in how soon they were able to resume employment growth and how strong that growth was.

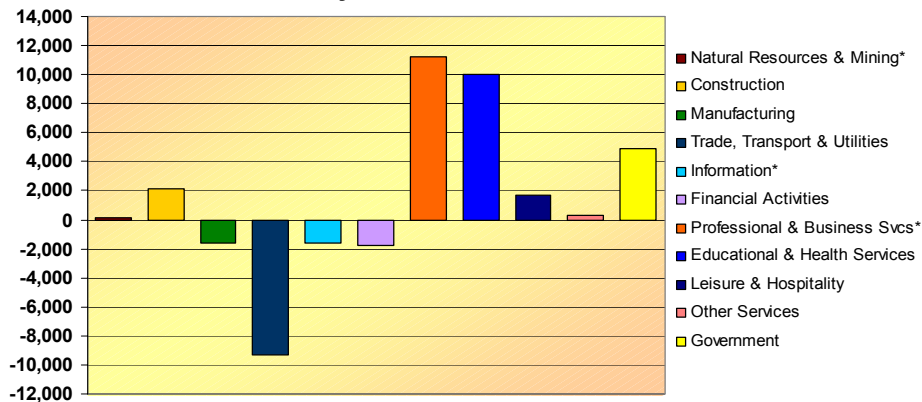


Source: U.S. Bureau of Labor Statistics

Many states, including Missouri, have begun to see improvement this year. As this map shows, there has been net employment growth in about 30 states. Employment change has varied from a gain of 3.4 percent in Nevada to a loss of 1.3 percent in South Carolina. Missouri's employment growth of 0.6 percent puts it in the top third of states, in terms of job growth since the beginning of the year.

Since the start of the year (January 2003 - October 2003) the largest employment declines in Missouri were in trade, transportation and utilities (including air transportation); financial activities; manufacturing; and information. Some industry groupings have reported employment growth since January 2003, notably professional and business services and educational and health services.

Missouri Employment Change by Sector January 2003 to October 2003



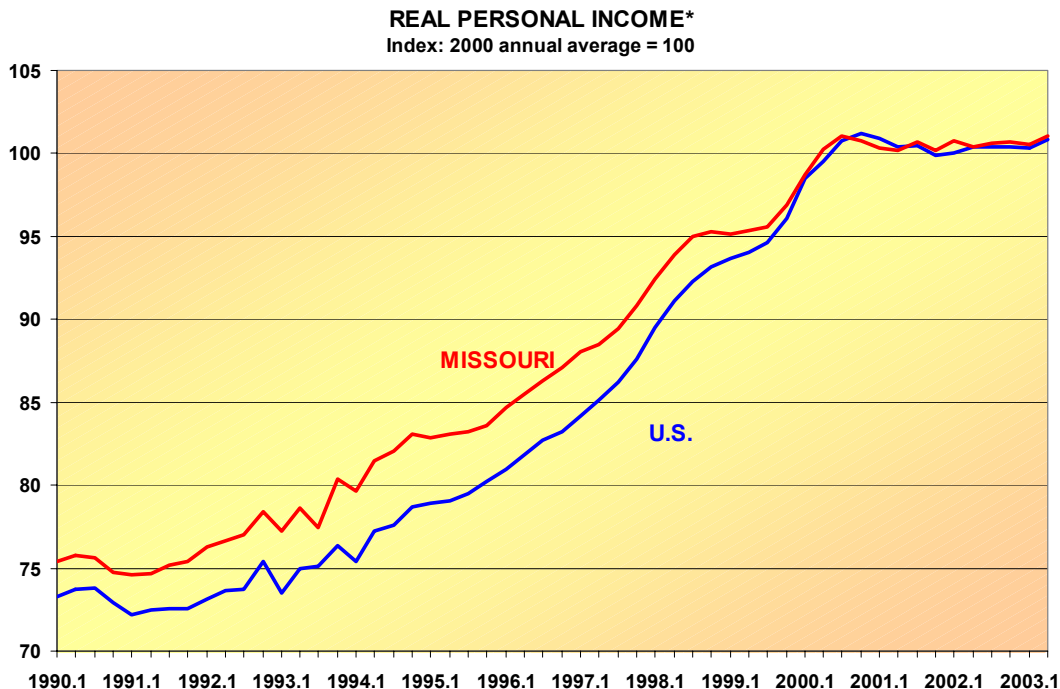
*Data in these sectors not seasonally adjusted.

Source: MERIC and U.S. Bureau of Labor Statistics

Personal Income

Personal income is a broad measure of economic activity and one for which relatively current data are available, especially at the national level.

Personal income includes earnings; property income such as dividends, interest, and rent; and transfer payments, such as retirement, unemployment insurance, and various other benefit payments. It is a measure of income that is available for spending and is seen as an indicator of the economic well-being of the residents of a state. Earnings and wages make up the largest portion of personal income.



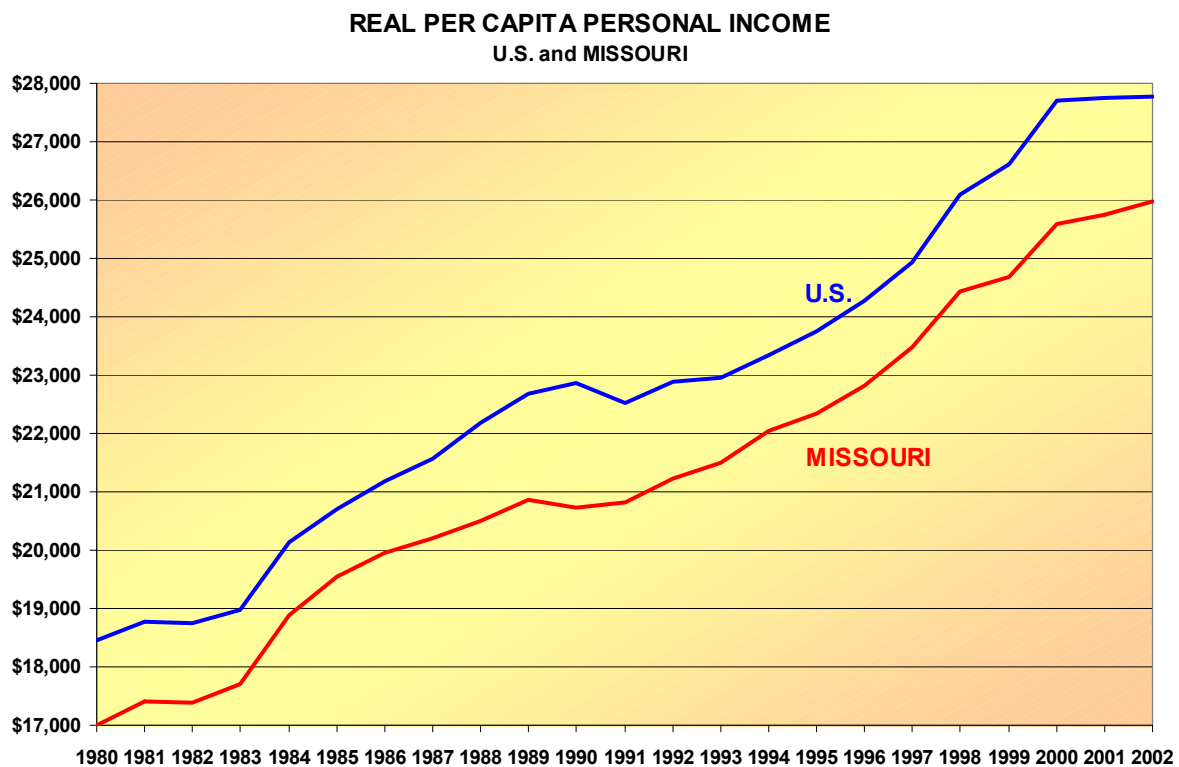
*Less transfer payments. 1996 dollars.

Source: MERIC and U.S. Bureau of Economic Analysis

To show the vastly different levels of total personal income for the U.S. and Missouri on the same chart, these data have been converted to index numbers.

The above chart shows a comparison of Missouri and U.S. growth in real personal income (less transfer payments). The year 2000 has been selected as the base year. In the period since 2000 (generally reflecting the recession and a short period before), real personal income has essentially been flat in both Missouri and the U.S. There have been some periods of growth and some of decline. Missouri's personal income has generally moved similarly to that of the nation.

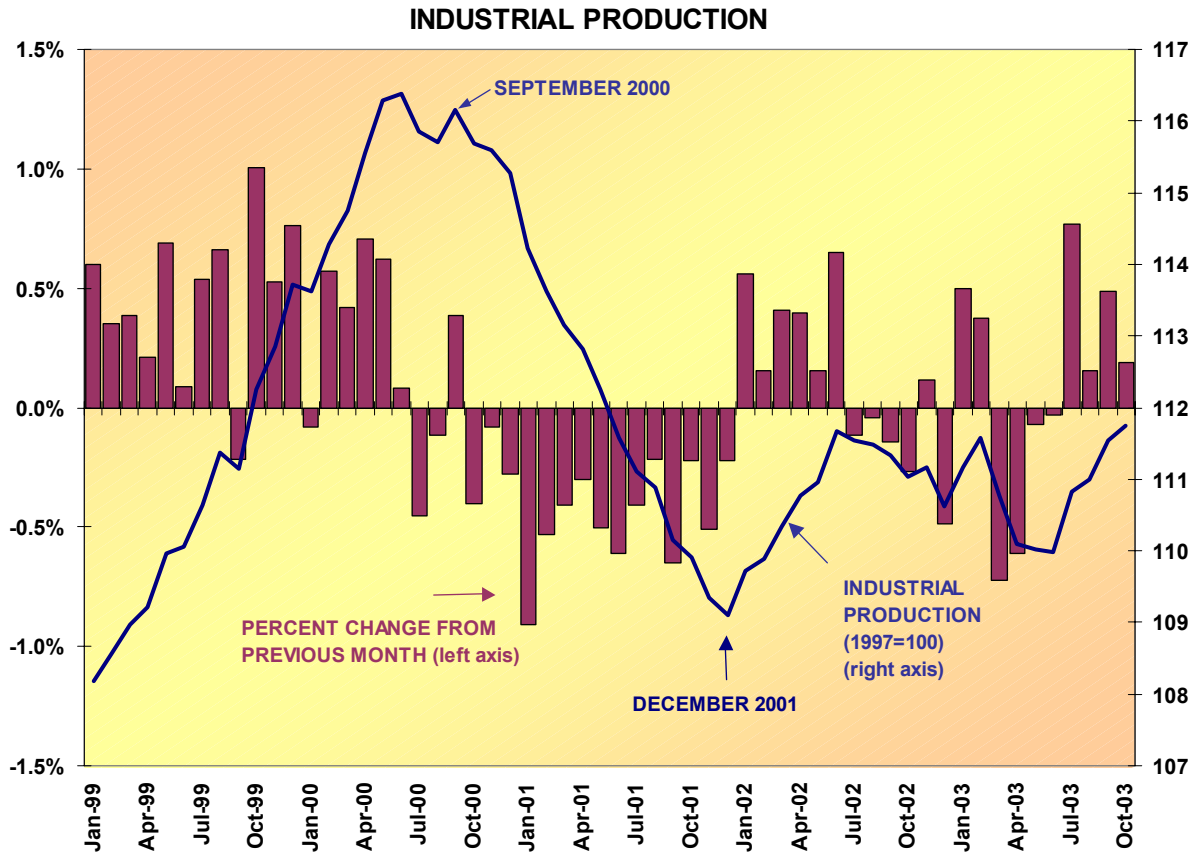
Comparing annual average data, Missouri's personal income growth was higher than the national figure. Missouri total personal income grew 2.8 percent between 2001 and 2002, compared to the national growth rate of 2.5 percent. Per capita personal income grew by 1.4 percent between 2001 and 2002, while the national growth was 1.2 percent.



Source: MERIC and U.S. Bureau of Economic Analysis

Manufacturing & Industrial Vitality

Industrial production in the U.S. is a measure closely linked to the manufacturing sector. Industrial production began to drop after September 2000 and fell continuously for more than a year before bottoming out in December 2001.

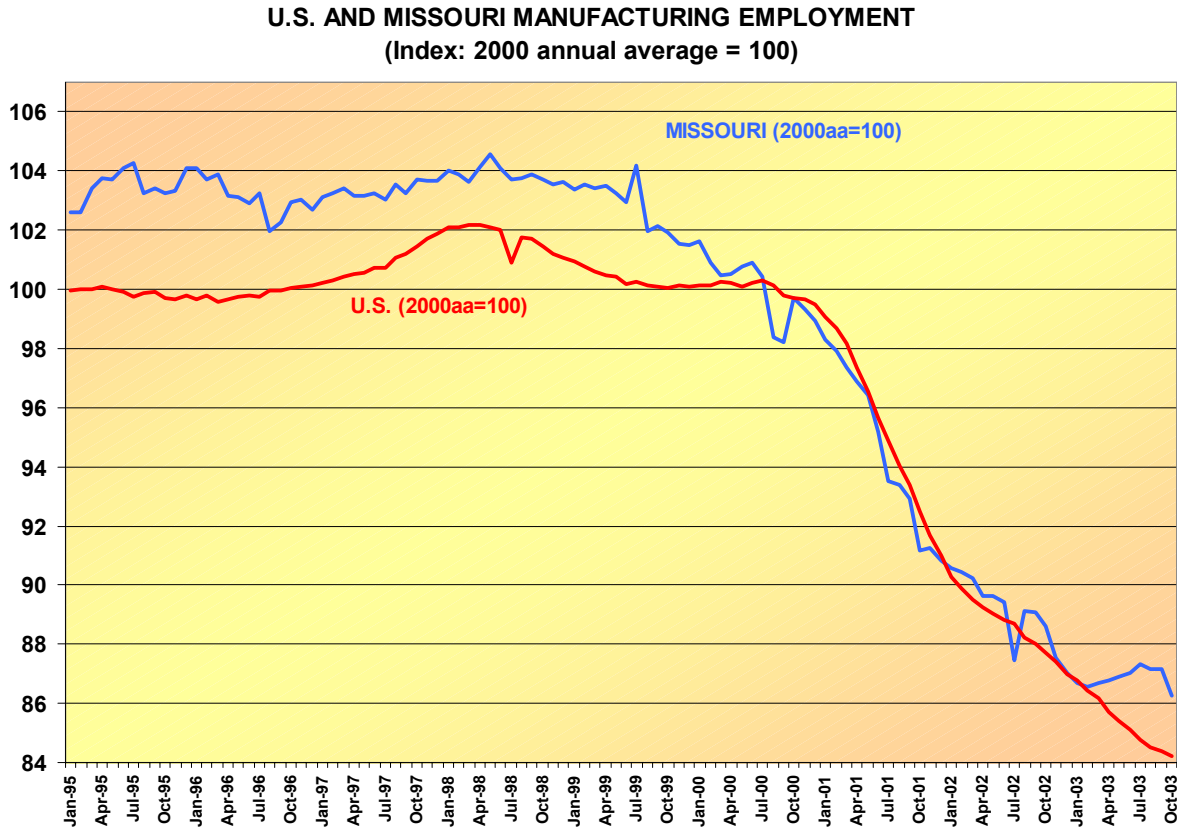


Source: Federal Reserve Board

Gains occurred during the first half of 2002, as the economy seemed to be resuming growth. This situation didn't last, however, as production began to slip again during the rest of the year, with only a brief respite in November. There was some monthly variation in production during the first half of 2003, but the index has been heading upward since June. The current (October) index, at 111.8 percent of its 1997 level, is about what it was in March and about 2.4 percent above the December 2001 trough.

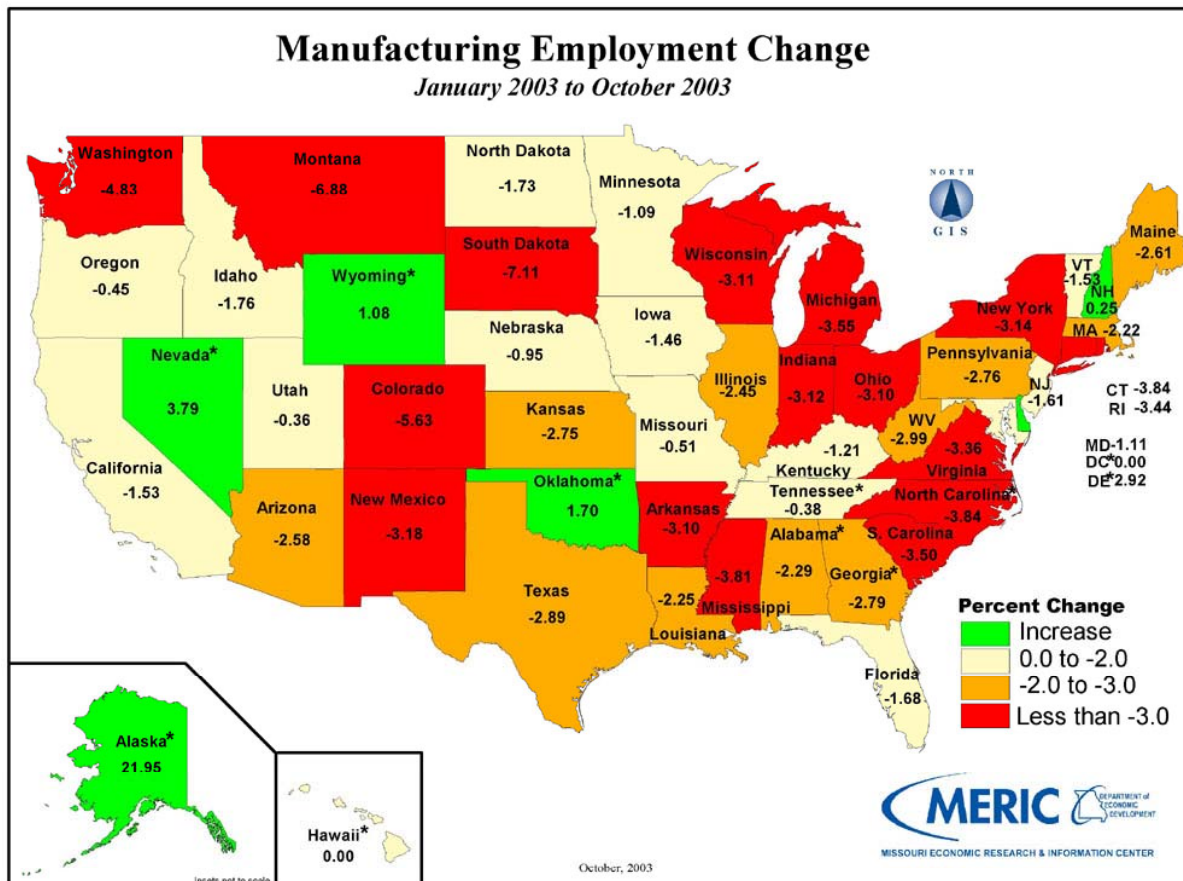
Manufacturing employment should move somewhat consistently with industrial production, although there could be some lag between increased production and rising employment. In particular, productivity gains have made it possible for manufacturers to increase output while holding employment constant or even shedding jobs.

Manufacturing employment had been falling fairly consistently in the U.S. and Missouri. The rate of job loss has slowed somewhat in the U.S., and the manufacturing picture looks even better in Missouri. Manufacturing employment in the state stabilized in early 2003 at about 313,000 jobs. There seems to have been some upward trend recently, but variations in monthly employment make it difficult to tell how strong or sustained these improvements might be.



Source: MERIC and U.S. Bureau of Labor Statistics

Manufacturing in most other states is a somewhat different story, with employment continuing to fall. There have only been a handful of mostly small states with any growth since the beginning of the year. Missouri's factory sector has been stabilizing recently. Its loss of 0.5 percent in manufacturing employment places it in the top 12 states in terms of employment growth. In other words, more than three-fourths of states have lost relatively more manufacturing jobs than Missouri this year.



*Data not seasonally adjusted

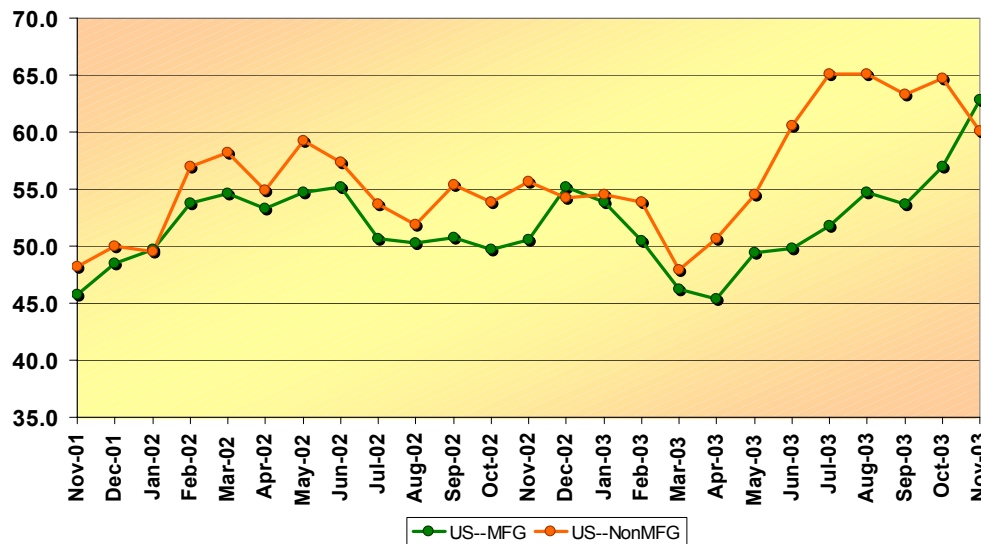
Source: U.S. Bureau of Labor Statistics

Purchasing Managers' Index

One leading index, Missouri's Purchasing Managers' Index (PMI) increased in November. The state's PMI score rose to 60.2 in November from 58.7 in October according to the monthly *Mid-American Business Conditions Survey*, conducted by Creighton University, Omaha, NE. Missouri's score has remained above the critical 50 mark for 22 consecutive months.

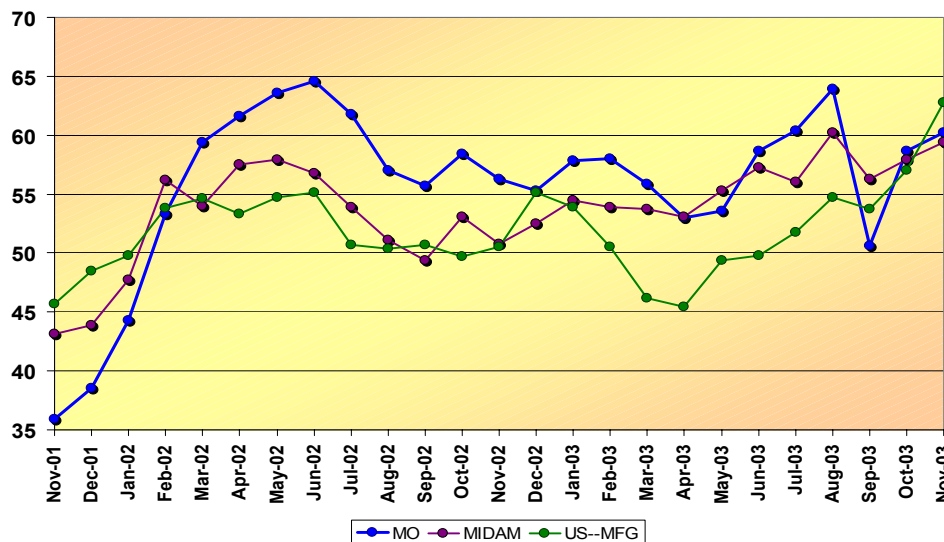
Economists consider the index, which measures such factors as new orders, production, supplier delivery times, backlogs, inventories, prices, employment, import orders and exports, a key economic indicator. Typically, a score greater than 50 indicates an expansionary economy, while a score below 50 forecasts a sluggish economy for the next three to six months.

Institute for Supply Management Purchasing Managers' Indices



The national PMI for manufacturing industries increased 5.8 points to 62.8 in November, the highest level for this index since December 1983. This marks the fifth straight month the national index was above the expansionary level, with 18 of the 20 manufacturing industries surveyed reporting positive conditions.³ The nation's PMI for non-manufacturing industries decreased in November to 60.1 from 64.7 in October. This was below economists' expectations but remained above the expansionary 50 level. The upward trends in these PMI indices in recent months are a hopeful sign for a stronger U.S. economy.

Purchasing Managers' Indices (MFG)



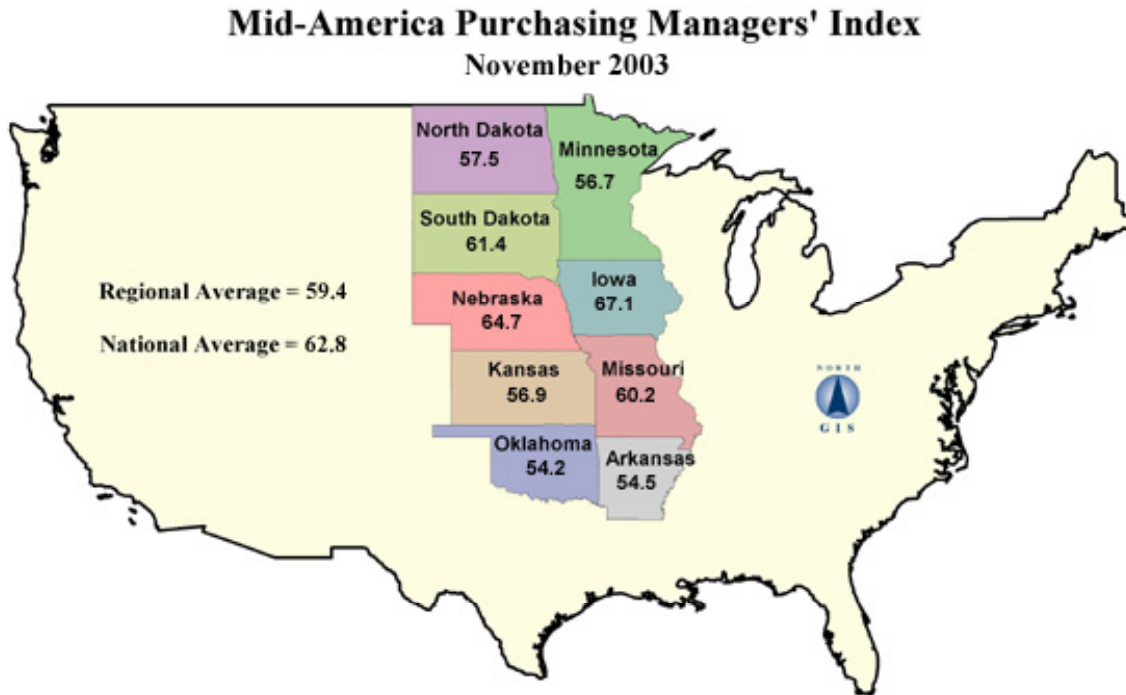
Source: Institute for Supply Management and Creighton University

³ Andrews, Edmund and Norris, Floyd. "Manufacturing at Highest Level in Two Decades." *The New York Times*. December 2, 2003.

Missouri's November PMI score was above 50 for the 22nd straight month. The state had strong scores in production (67.5), new orders (62.5) and employment (57.5).

Other states in the region include Iowa (67.1), Nebraska (64.7), South Dakota (61.4), North Dakota (57.5), Kansas (56.9), Minnesota (56.7), Arkansas (54.5) and Oklahoma (54.2).

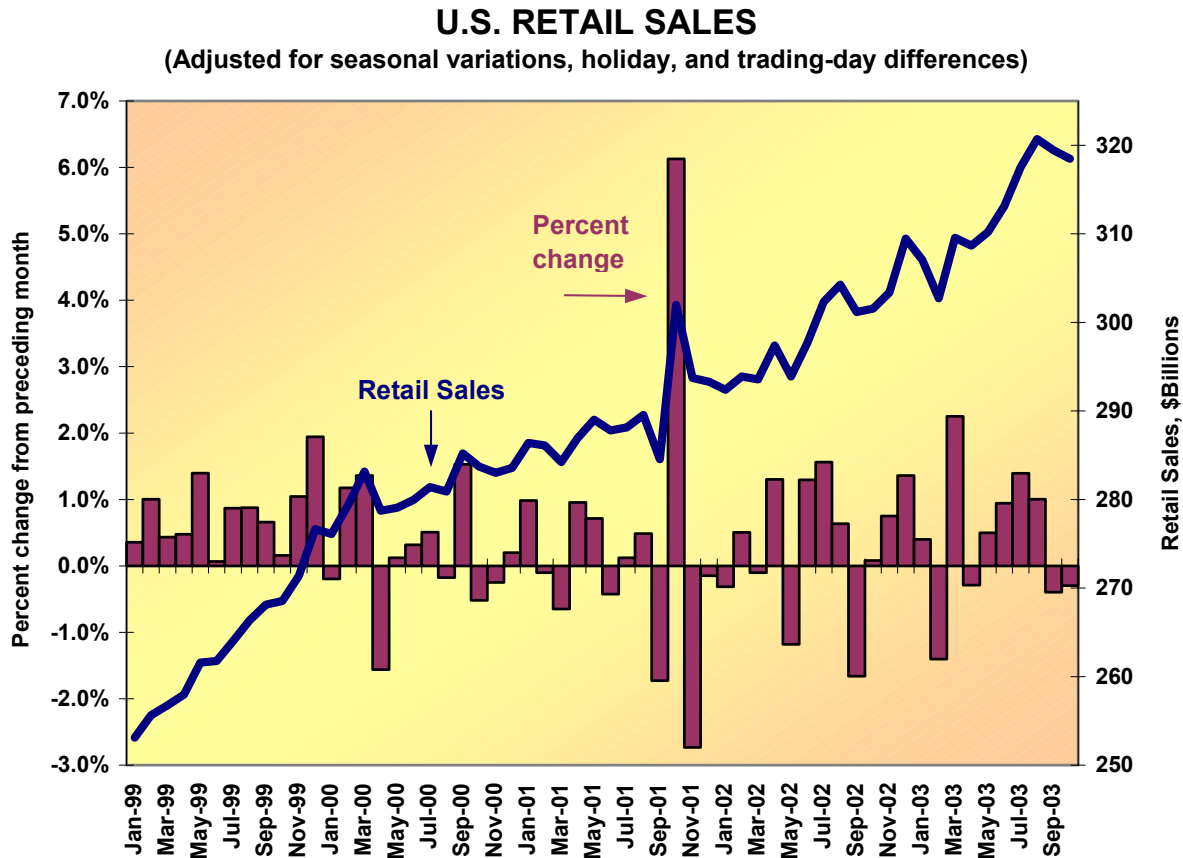
Overall, the average for the Mid-America Region increased to 59.4 in November from 57.9 in October.



Source: Creighton University, Mid-American Business Conditions Survey

Retail Trade and Taxable Sales

There have been considerable swings in retail trade so far this year, with weather, varying automobile sales and fluctuating gasoline prices contributing to these swings. Total sales were down in both September and October, the first back-to-back decreases since the beginning of 2002. Weakening automobile sales and lower gas prices were primarily responsible. Without these two components, sales increased 0.1 percent in September and 0.4 percent in October. Even these "core" sales growth figures were lower than in recent months. Slowing cash flow is considered to be responsible. With tax rebates and cash from residential refinancing largely behind us, some of the boost to retail sales is gone as well.



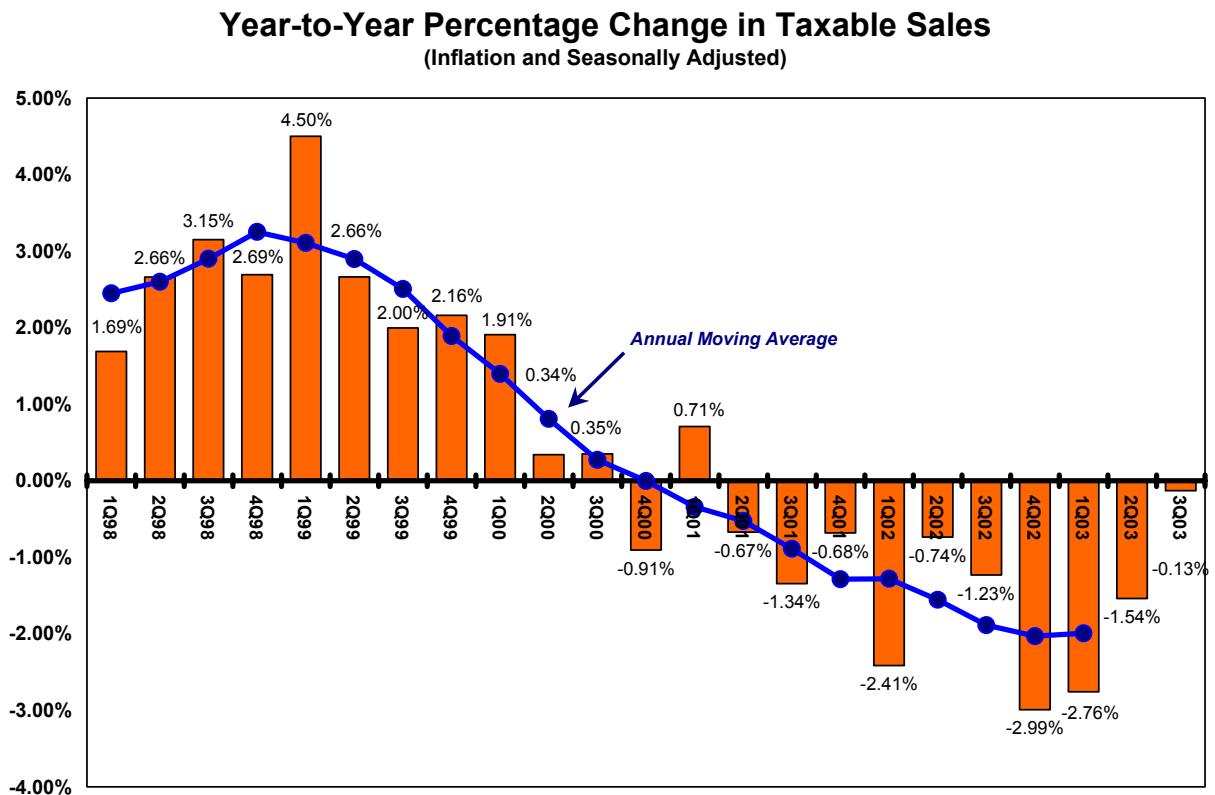
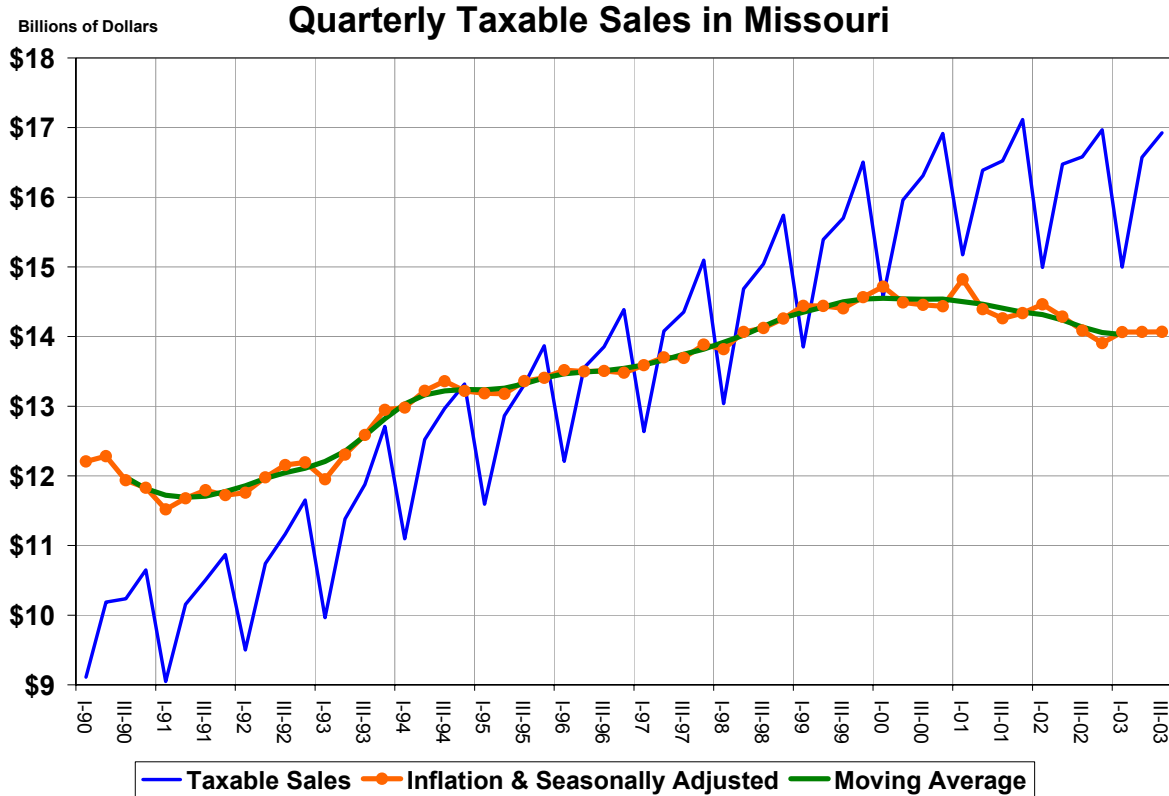
Source: U.S. Census Bureau

While no specific retail sales data are readily available for Missouri, total taxable sales as measured by the Missouri Department of Revenue (DOR) can serve as a proxy measure. Retail sales account for approximately 70% of taxable sales in Missouri, with an additional 10% from wholesale trade, 10% from service industries such as hotels and amusement parks, 5% from communications industries, and 5% from other industries.

The Missouri Department of Revenue (DOR) recently released preliminary taxable sales estimates for the 3rd quarter of 2003. Over this period, \$16.9 billion in taxable sales occurred in the state, an increase of 2.08% in actual dollars from the same quarter of 2002. This represents the largest year-to-year increase in more than two years.

Quarterly Taxable Sales in Missouri				
	Taxable Sales (\$B)	% Change from Year Ago	Inflation & Seasonally Adjusted (\$B-96)	% Change from Year Ago (Adjusted)
1Q99	13.9	6.24%	14.4	4.50%
2Q99	15.4	4.83%	14.4	2.66%
3Q99	15.7	4.39%	14.4	2.00%
4Q99	16.5	4.84%	14.6	2.16%
1Q00	14.6	5.21%	14.7	1.91%
2Q00	16.0	3.68%	14.5	0.34%
3Q00	16.3	3.87%	14.5	0.35%
4Q00	16.9	2.49%	14.4	-0.91%
1Q01	15.2	4.13%	14.8	0.71%
2Q01	16.4	2.68%	14.4	-0.67%
3Q01	16.5	1.32%	14.3	-1.34%
4Q01	17.1	1.18%	14.3	-0.68%
1Q02	15.0	-1.19%	14.5	-2.41%
2Q02	16.5	0.53%	14.3	-0.74%
3Q02	16.6	0.34%	14.1	-1.23%
4Q02	17.0	-0.86%	13.9	-2.99%
1Q03	15.0	0.03%	14.1	-2.76%
2Q03	16.6	0.60%	14.1	-1.54%
3Q03	16.9	2.08%	14.1	-0.13%

However, analysis by MERIC shows that if seasonal and inflationary effects are removed from the data, the negative overall trend in taxable sales continued during the 3rd quarter. Adjusted taxable sales in Missouri during the 3rd quarter of 2003 were at approximately the same level as the previous quarter. Real year-to-year growth during the 3rd quarter of 2003 stood at -0.13%, a negligible decline compared to the previous nine quarters.



Holiday Retail Sales Forecast

Retail sales during the holiday period represent an important measure of economic activity. They are of obvious significance to the trade sector, with many retailers depending on these sales for a substantial portion of their annual activity. Sales tax revenue generated by these sales are also important to state and local governments. And sales at this time of year provide a very tangible measure of consumer sentiment.

Forecasters are generally expecting holiday sales to be better than last year's. Typical forecasts call for an increase of 3.5 to 4 percent from last year's spending. One forecast, from the National Retail Federation, is for 5.7 percent growth this year.⁴ Last year's sales represented a gain of only 2.2 percent from holiday season sales in 2001, which presumably were depressed in the wake of the terrorist attacks.

One major retail analyst, Michael P. Niemira, believes that the major indicators for holiday sales will be November sales and sales in the first two weeks of December. November chain store sales grew by 3.6 percent, a little below the 4 percent growth he had expected but generally in line with expectations.⁵ Niemira therefore believes that "holiday sales are still on track to finish as the strongest season since 1999" with a 4 percent increase over the previous year. Wholesale clubs and drug stores had the best over-the-year gains in November while shoe and department stores were down over the year.

The 2003 season did not get off to a strong start in the weekend following Thanksgiving, however.⁶ The BTM-UBS retail chain store sales index for the week ending November 29 declined by 0.1 from the preceding week but was 5.2 percent higher than in the corresponding week last year.⁷ The most popular items were reported to be (in order) CDs, DVDs, and video games; clothing and accessories, toys; and home furnishings. "Door busters" or those "must have" gifts always seem important to Thanksgiving weekend sales, and there may have been fewer of them this year at some retailers.

Wal-Mart did report record one-day sales of more than \$1.52 billion on Friday, compared to \$1.43 billion last year.⁸ For much of this year, discount stores and wholesale clubs have reported better sales than department stores.

Online retail sales were reported to be about \$200 million on Friday, up 38 percent from last year.⁹

But Thanksgiving weekend sales alone are not necessarily a good indicator of overall holiday season spending. A slow start could lead to larger gains later. The Thanksgiving weekend

⁴ Tracie Rozhon, "Retail Analysts Yawn at Early Holiday Sales," The New York Times (nytimes.com), December 2, 2003.

⁵ Michael P. Niemira, "Retail Trends," Bank of Tokyo-Mitsubishi, Ltd., December 4, 2003.

⁶ Tracie Rozhon, "Early Sales Appear Modest as Holiday Season Begins," The New York Times (nytimes.com), December 1, 2003.

⁷ Bank of Tokyo-Mitsubishi, Ltd, "Weekly Chain Store Sales Snapshot," December 2, 2003.

⁸ Wal-Mart Stores, Inc. press release, December 1, 2003.

⁹ Rozhon, December 1.

may represent only 10 percent of holiday business, while the week before Christmas could bring in 40 percent. Consumers have become fairly value conscious and could be waiting for better prices, although conservative inventory levels could reduce discounting this year. At least one analyst expects strong profit margins at retailers.¹⁰

Looking at factors that could influence retail sales, consumer confidence has risen sharply in recent weeks, according to the three main surveys, as economic news has been almost universally good. Employment has begun to increase, which should add a little to consumers' willingness to spend. So far, personal income growth has been relatively modest if fairly consistent.

This year's holiday shopping season (Thanksgiving Friday through Christmas Eve) is 27 days, one day longer than last year but shorter than average. Weather conditions often affect the timing of shopping activity, particularly on a local or regional level.

Tracking sales will be somewhat more difficult this year. Bank of Tokyo-Mitsubishi has announced that it will cease publication of its "Weekly Chain Store Sales Snapshot" after the December 9 release.

As for Missouri, many retailers around the state are optimistic at the start of this holiday shopping season. According to local newspaper reports, retailers in five major shopping areas across the state had solid after Thanksgiving sales with shoppers lined up for the "Black Friday" specials. Storeowners are hopeful that this is a good sign for the rest of the season, as the biggest shopping days are just before Christmas.

St. Louis: At the new St. Louis Mills shopping mall in Hazelwood, retailers said business started a little slow, but picked up throughout the day after Thanksgiving. Amy Whittman, general manager of the Off 5th-Saks Fifth Avenue Outlet, said business was "wild" and she did not expect so many customers early in the day. Notably, some retailers noticed people beginning to shop for Christmas gifts as early as September this year, a trend that did not occur during the last holiday shopping season.¹¹

Kansas City: General managers of several Kansas City area shopping centers reported an increase in traffic on Black Friday this year over last season. Some of the malls include the Towne Center Plaza in Leawood, the Independence Center, the Great Mall of the Great Plains and the Country Club Plaza. At Yankee Candle, store manager Gayle Rice said that overall business had picked up by about 15 percent since September.

Retailers did report slowing traffic and sales on Sunday, perhaps due to the Kansas City Chiefs football game that day.¹²

¹⁰ Rozhon, December 2.

¹¹ Thomas Lee, "Stores Hope Holiday Sales Start Strong" and "Early Specials Draw Holiday Shoppers," St. Louis Post-Dispatch (STLtoday.com), November 28, 2003.

¹² Joyce Smith, "Retailers Optimistic for a Better Year" and "Holiday Buying Starts Strong," Kansas City Star (KansasCity.com), November 29, 2003 and December 2, 2003.

Springfield: Local merchants in the Springfield area say that 2002 holiday sales were strong and business is better so far in 2003. Many area retailers have added extra temporary staff to handle to holiday rush, some of which hope to retain the job permanently. J.C. Penney spokesman Tim Lyons says the amount of staff will increase at the stores between 10 and 20 percent during the season, depending on the individual location's sales volume.¹³

Cape Girardeau: Store managers in southeast Missouri say they have seen more early customers, and retailers hope the momentum carries through the season. John Mehner, the Cape Girardeau Chamber of Commerce director, said city sales tax receipts have shown increases of at least 7 percent in the last two months. Trey Noles, an assistant manager at the Jackson Wal-Mart, said sales have been up in the last two weeks as he has watched many customers walk out of the store with big items.¹⁴ The store manager of the area J.C. Penney is expecting sales to increase by 10 percent over last year.¹⁵

However, some downtown business owners said business by the river has not significantly increased, citing the type of business determines whether sales are up or not.¹⁶

Columbia: Both individual businesses and the local shopping mall in Columbia reported activity that met or exceeded expectations during the day after Thanksgiving sales. A spokesperson for the Columbia Mall said traffic is usually heaviest in the morning but stayed steady throughout the day on Friday this year. Downtown retailers also reported strong sales for the day.¹⁷

¹³ Karen E. Clup, "Stores Aglow with Optimism," Springfield News Leader (News-Leader.com), November 30, 2003.

¹⁴ Bob Miller, "Christmas Buying is Done for Some, and Retailers are Merry," Southeast Missourian (semissourian.com), November 19, 2003.

¹⁵ Scott Moyers, "Second-Biggest Shopping Day of the Year Starts Early," Southeast Missourian (semissourian.com), November 28, 2003.

¹⁶ Miller, November 19.

¹⁷ Arcenia Harmon, "Shopping Season Off to Strong Start," Columbia Daily Tribune, December 2, 2003.

Missouri Business Activity

Number of Businesses

Through the 2nd quarter of 2003, Missouri reported an average of 156,672 businesses, up by 699 from the 2002 annual average. The number of private businesses in Missouri has been rapidly increasing since 2000, becoming more inline with growth rates experienced in the mid 1990s.

While payroll and the average annual wage has been steadily increasing in the state, wage growth through the first half of 2003 was somewhat slower than previous averages at 0.5%, although this trend could change in the latter half of the year.

Average Number of Missouri Firms 1990-2003Q2

Year	Average Number of Firms	Change in Firms from Previous Year	Average Annual Wage	% Change from Previous Year in Annual Wage
2003*	156,672	699	\$33,410	0.5%
2002	155,973	2,318	\$33,260	1.9%
2001	153,655	2,237	\$32,635	3.2%
2000	151,418	118	\$31,614	5.0%
1999	151,300	883	\$30,098	3.8%
1998	150,417	3,563	\$29,002	4.4%
1997	146,854	2,965	\$27,791	4.7%
1996	143,889	2,864	\$26,537	3.7%
1995	141,025	3,258	\$25,602	4.6%
1994	137,767	3,026	\$24,477	3.2%
1993	134,741	2,107	\$23,711	1.3%
1992	132,634	538	\$23,414	4.7%
1991	132,096	3,212	\$22,359	4.0%
1990	128,884		\$21,508	

*Number is through 2nd quarter of 2003. Other years are annual averages.

Source: MERIC Covered Employment and Wage Program

New Business Formations

New businesses starting in Missouri totaled 1,272 in October. Most of these new firms were service-related (669). Construction (193), Finance, Insurance & Real Estate (109), Retail Trade (102) and Wholesale Trade (90) made up the remaining bulk of new companies in Missouri last month.

Despite the significant decline in manufacturing nationwide, 35 new manufacturing firms started in the state in October, including eight in Wood Product Manufacturing and three each in Food, Chemical, Primary Metal, Machinery, Furniture & Related Products and Miscellaneous Manufacturing.

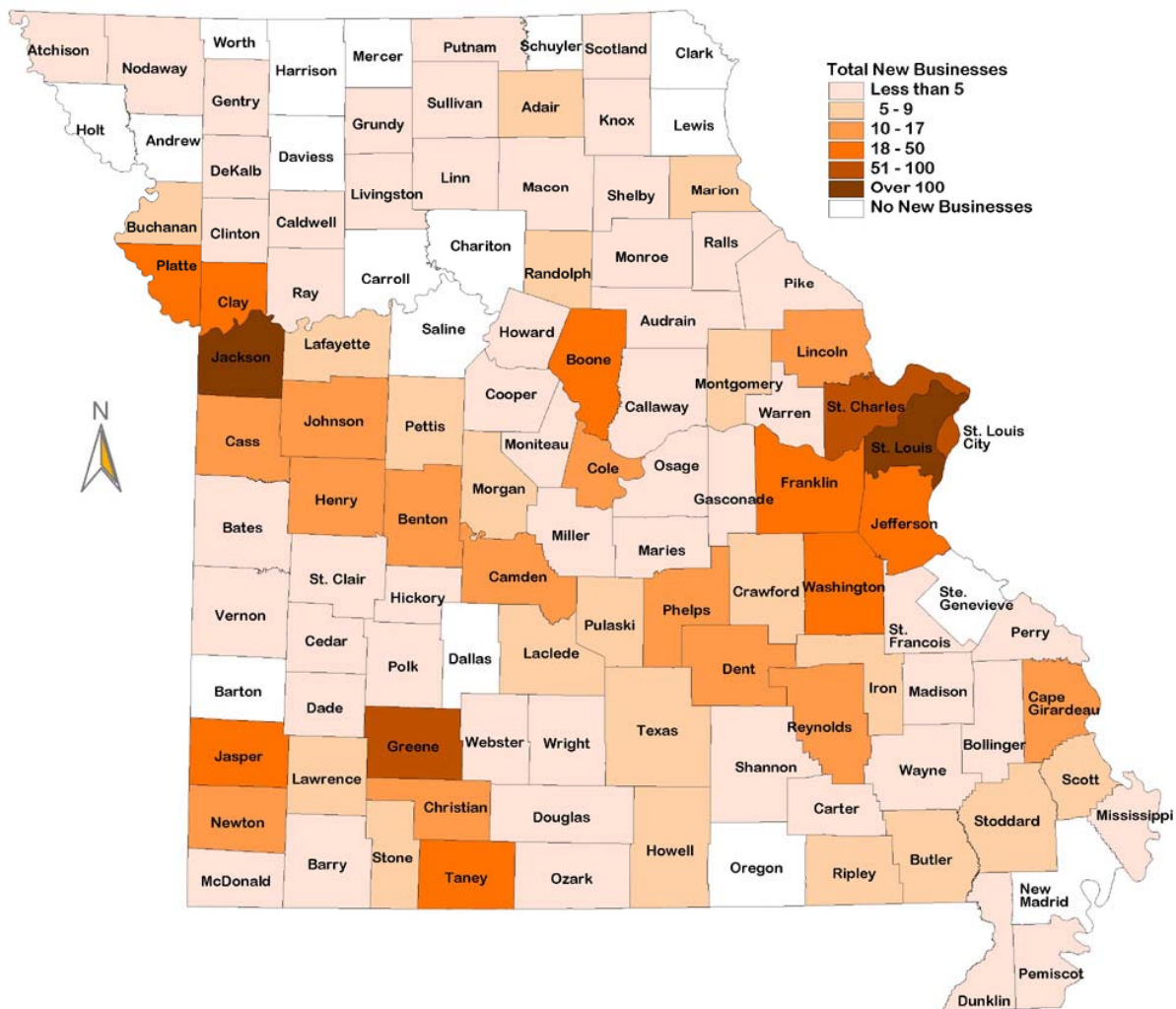
New Business Formations by Sector October 2003

Agriculture, Forestry, Fishing & Hunting	6
Mining	2
Utilities	1
Construction	193
Manufacturing	35
Wholesale Trade	90
Retail Trade	102
Transportation and Warehousing	49
Information	14
Finance, Insurance & Real Estate	109
Services	669
Public Administration	2
Total	1,272

October new business starts were spread throughout the state. Not surprisingly, the large metropolitan areas had the most new company formations: St. Louis County (212), Jackson (111), St. Louis City (81), St. Charles (61) and Greene (51).

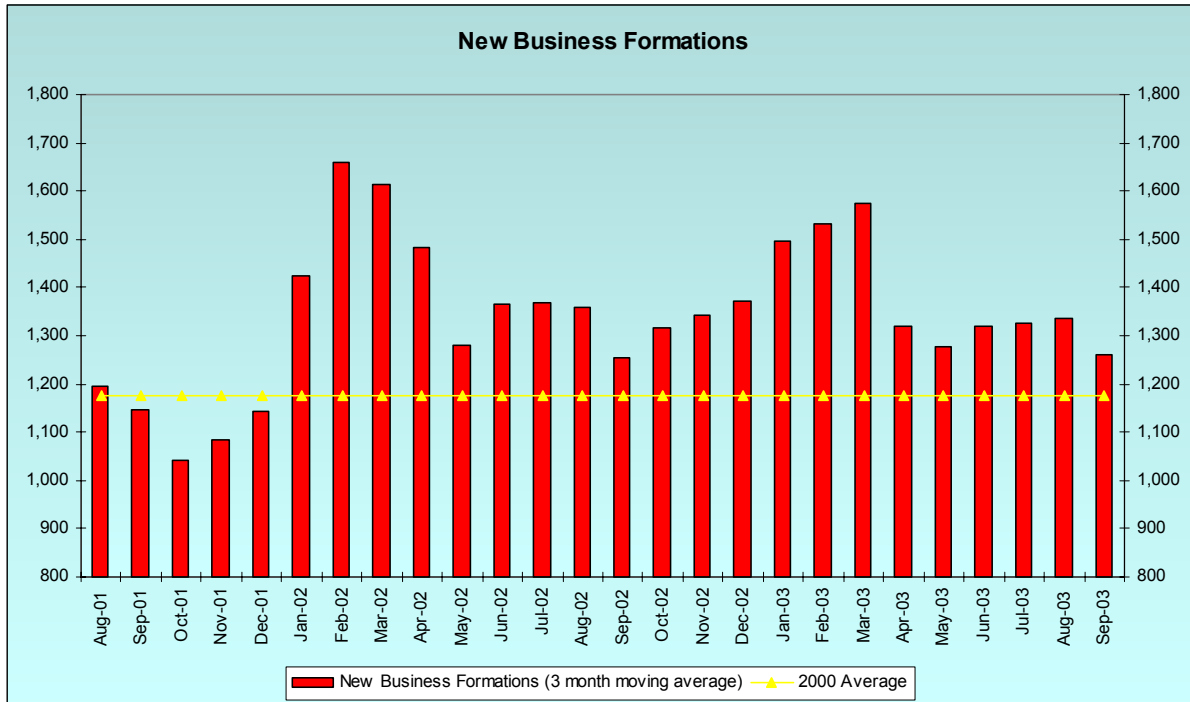
Several rural sections of Missouri showed significant new business activity. Phelps, Camden, Dent and Benton counties all registered double-digits in new business formations. Concentrated activity occurred in the area extending from Kansas City southeast to Rolla and through Reynolds county. The Joplin (Jasper and Newton) and Branson (Taney, Christian and Stone) areas of southwest Missouri also formed a cluster of new business formations.

New Business Formation by County *October 2003*



Compared to October 2002, new business formations are up by 139. Meanwhile, the 3-month moving average for business starts in Missouri was slightly below the average from a year ago, 1261 compared to 1256.

The number of new business formations in the state has been above the annual average for 2000 since the beginning of 2002. This indicates a consistently robust number of business starts in Missouri even during a period of national economic downturn.



Source: Industry Coding Section, Missouri Economic Research and Information Center.

Conclusions

The recession has officially been over for two years, and GDP growth has been unusually strong. Recessionary conditions in Missouri now seem to be lifting as well. Employment has increased in the U.S., and more states are seeing improvement. National employment increased by 286,000 in the past three months, while Missouri employment is up by more than 25,000. As improving economic conditions spread through more sectors of the economy, growing demands for goods and services should call for further production increases. So far, employers have largely met this increased demand by seeking productivity gains, resulting in a “jobless recovery.” With continued, broadening strength in the economy, businesses will have to begin to add both temporary and permanent workers. Employment gains should then expand to more industries and accelerate. A sustained recovery now appears in the offing.

Conditions Report Supplement: How Missouri Ranks A Collection of National Benchmarking Studies

Technology Indicators

The Dynamics of Technology Based Economic Development: State Science and Technology Indicators, was first developed in 2000 by the U.S. Department of Commerce, Technology Administration. The primary purpose of this report is to assemble a consistent set of state-level data that approximates the “technology infrastructure” of the states, or, at the very least, compiles information about those factors that clearly affect states’ capacity to generate new enterprises and high quality jobs, and sustain economic growth.

Indicator	Value	Rank
Funding In-Flows		
R&D Expenditures/\$1,000 of GSP (2000)	\$14.44	29
Industry R&D/\$1,000 of GSP (2000)	\$10.58	28
Federal R&D/\$1,000 of GSP (2000)	\$0.25	40
University R&D/\$1,000 of GSP (2000)	\$3.43	17
Fed Obligations for R&D/\$1,000 of GSP (2000)	\$4.98	21
SBIR Awards/10,000 Businesses (1999-2001)	1.4	47
SBIR Award Dollars/\$1,000 of GSP (1999-2001)	\$0.02	46
STTR Awards/10,000 Businesses (1999-2001)	0.3	29
STTR Award Dollar/\$1,000 of GSP (1999-2001)	\$0.003	30
Human Resources		
NAEP Science Test Scores (2000)	156	11
% of Population Completing High School (2000)	86.6%	21
% of Associates Degrees Granted/Pop 18-24 (1999-2000)	1.98	26
% Bachelors Degrees Granted/Pop 18-24 (1999-2000)	5.6%	12
% S&E BS Degrees Granted/Total Bach’s (1999-2000)	16.8%	33
% S&E Grad Students/ Pop 18-24 (2000)	1.11%	37
% of Workforce w/Recent S&E BS Degree (1999)	1.29%	25
% of Workforce w/Recent S&E MS Degree (1999)	0.38%	12
% of Workforce w/Recent S&E PhD (1999)	0.11%	26
Capital Investment and Business Assistance		
Venture Capital Invested/\$1,000 of GSP (2001)	\$1.90	19
SBIC Funds Dispersed/\$1,000 of GSP (1999-2001)	\$0.40	19
IPO Funds Raised/\$1,000 of GSP (1999-2001)	\$10.77	3
Business Incubators/10,000 Businesses (2002)	1.2	29
Technology Intensity of Business Base		
% Estab. In Hi-Tech NAICS codes (1999)	4.5%	31
% Employment in Hi-Tech NAICS codes (1999)	8.3%	24
% Payroll in Hi-Tech NAICS codes (1999)	12.7%	28
% Estab. Births in Hi-Tech NAICS codes (1999)	5.9%	33
Net Hi-Tech Formations/10,000 Estab. (1999)	11.8	34

Outcome Measures		
Patents Issued/10,000 Businesses (1999-2001)	70	34
Fast 500 Companies/10,000 Businesses (2001)	0.8	11
Inc. 500 Companies/10,000 Businesses (2001)	0.7	21
Average Annual Earnings/Job (2000)	\$31,385	24
% Population Above Federal Poverty Level (2000)	92.0%	7
Per Capita Personal Income (2000)	\$27,186	29
Labor Force Participation Rate (2001)	70.7%	12
% of Workforce Employed (2001)	95.3%	27
% of Households w/Computer (2001)	55.3%	31
% of Households w/Internet Access (2001)	49.9%	30

Source: U.S. Department of Commerce, Technology Administration - The Dynamics of Technology-Based Economic Development: State Science & Technology Indicators: April 2003

2003 Development Report Card for the States

Missouri's economy has a mixture of strengths and weaknesses. Earnings, job quality and entrepreneurial energy are strong while low employment indicators and poor infrastructure drag down the economy. The study notes that Missouri should recruit health care professionals and reduce business closings. On a positive note, however, the high school completion rate is admirable, and few low-income children lack health insurance. The 17th annual report card, by the nonprofit, Washington-based Corporation for Enterprise Development (CFED), is a broad-based state-by-state comparison of the economies of the 50 states, with 68 measures taken into account.

Indicator	Value	Rank
Performance		
Employment		
Employment Growth: Long-Term		31
Employment Growth: Short-Term		42
Unemployment Rate		25
Mass Layoffs		36
Earnings and Job Quality		
Average Annual Pay		24
Average Annual Pay Growth		17
Employer Health Coverage		18
Working Poor		16
Involuntary Part-time Employment		18
Equity		
Poverty Rate		18
Income Distribution		16
Income Distribution Change		37
Rural/Urban Disparity		23
Quality of Life		
Net Migration		26
Infant Mortality		29
Uninsured Low Income Children		2
Teen Pregnancy		32
Death from Heart Disease		44
Homeownership Rate		8
Charitable Giving		25
Voting Rate		6
Crime Rate		39
Resource Efficiency		
Per Capita Energy Consumption		13
Renewable Energy		47
Toxic Release Inventory		35
Recycling Rate		8
Vehicle Miles Traveled		43
Greenhouse Gas Emissions		33

Business Vitality		
Competitiveness of Existing Businesses		
Strength of Traded Sector		30
Business Closings		45
Manufacturing Investment		26
Industrial Diversity		14
Entrepreneurial Energy		
New Companies		26
Change in New Companies		5
Job Growth Due to New Companies		17
Technology Industry Employment		29
Initial Public Offerings		30
Development Capacity		
Human Resources		
Basic Educational Skills Proficiency – Reading		19
Basic Educational Skills Proficiency – Math		19
Average Teacher Salary		39
K-12 Education Expenditures		30
High School Completion		4
High School Attainment		20
College Attainment		21
Financial Resources		
Dividends, Interest and Rent		29
Venture Capital Investments		21
SBIC Financing		23
Loans to Small Business		17
Infrastructure Resources		
Highway Deficiency		26
Bridge Deficiency		42
Urban Mass Transit		24
Sewage Treatment Needs		33
Electronic Public Services		22
Amenity Resources and Natural Capital		
Energy Costs		16
Cost of Urban Housing		15
Health Professional Shortage Areas		48
Conversion of Cropland to Other Uses		48
Air Quality		21
Innovation Assets		
Ph.D. Scientists and Engineers		31
Science/Engineering Graduate Students		37
Households with Computers		31
University R&D		20
Federal R&D		27

Private R&D		29
SBIR Grants		48
Royalties and Licenses		18
Patents Issued		34
University Spin-outs		40

*Source: (Text taken from CFED Press Release for Missouri, November 13, 2003.)
Corporation for Enterprise Development, Development Report Card for the States 2003.
Released November 13, 2003.*

The New Economy Index 2002

With the evolution of the knowledge economy, new factors such as high productivity, better inventory management, more flexible labor markets, increased technology usage and higher-skilled workers will be the indicators of successful economic development. Acknowledging the changing economic environment, the Progressive Policy Institute has calculated new indicators to measure the degree to which state economies are structured and operate according to the tenets of the New Economy. The table below illustrates how Missouri is performing in the new economy including Missouri's national rankings.

Indicator	Rank	Score
Overall*	24	58.85
Aggregated Knowledge Jobs	23	10.04
Information Technology Jobs <i>Employment in IT occupations in non-IT industries as a share of total jobs.</i>	18	1.7%
Managerial, Professional & Tech Jobs <i>Managers, professionals, and technicians as a share of the total workforce.</i>	29	25.2%
Workforce Education <i>A weighted measure of the educational attainment (advanced degrees, bachelor's degrees, associate degrees, or some college course work) of the workforce.</i>	24	50.4
Education Level of the Manufacturing Workforce <i>A weighted measure of the educational attainment of the manufacturing workforce.</i>	40	0.67
Aggregated Globalization Score	38	8.83
Export Focus Of Manufacturing <i>Manufacturing export sales per manufacturing worker.</i>	38	\$21,252
Foreign Direct Investment <i>The percentage of each state's workforce employed by foreign companies.</i>	32	3.7%
Aggregated Economic Dynamism Scores	14	11.50
"Gazelle" Jobs <i>Jobs in gazelle companies (companies with annual sales revenue that has grown 20 percent or more for four straight years) as a share of total employment.</i>	17	13.9%
Job Churning <i>The number of new start-ups and business failures, combined, as a share of all establishments in each state.</i>	30	19.0%
Initial Public Offerings <i>A weighted measure of the value and number of initial public stock offerings of companies as a share of gross state product.</i>	10	6.23

Aggregated Digital Economy Scores	25	10.27
Online Population <i>The percentage of adults with Internet access in each state.</i>	20	57.3%
Commercial Internet Domain Names <i>The number of commercial Internet domain names (".com") per firm.</i>	33	0.52
Technology in Schools <i>A weighted measure of five factors measuring computer and internet use in schools.</i>	9	2.94
Digital Government <i>A measure of the utilization of digital technologies in state governments.</i>	28	3.06
Online Agriculture <i>A measure of the percentage of farmers with Internet access and who use computers for business.</i>	27	2.90
Online Manufacturers <i>The percentage of manufacturing establishments with Internet access.</i>	24	86.0%
Broadband Telecommunications <i>A measure of the use and deployment of broadband telecommunications infrastructure over telephone lines.</i>	29	2.89
Aggregated Innovation Capacity	30	8.15
High-Tech Jobs <i>Jobs in electronics manufacturing, software and computer-related services, telecommunications, and biomedical as a share of total employment.</i>	29	3.8%
Scientists and Engineers <i>Civilian scientists and engineers as a percentage of the workforce.</i>	31	0.38%
Patents <i>The number of patents issued to companies or individuals per 1,000 workers.</i>	34	0.45
Industry Investment in R&D <i>Industry investment in research and development as a percentage of Gross State Product (GSP).</i>	29	0.81%
Venture Capital <i>Venture capital invested as a percentage of GSP.</i>	25	0.34%

Source: Progressive Policy Institute

Small Business Survival Index

Each year the Small Business Survival Committee ranks the environment for entrepreneurship across the nation. Missouri ranks favorably in several key areas, including ranking in the Top 20 overall. However, exceedingly high health care cost, workers' compensation costs and a high crime rate negatively impacted Missouri's overall Business Survival Index ranking.

Indicator	Rank	Value
<i>Small Business Survival Index</i>	19	41.576
Personal Income Tax Rate	27	6.00%
Capital Gains Tax Rate	31	6.00%
Corporate Income Tax Rate	12	5.16%
State & Local Property Tax*	12	2.21%
State & Local Gross Sales, Receipts & Excise Taxes**	28	3.33%
Unemployment Tax Rate***	9	1.42%
Health Care Costs^	34	1.03
Electric Utility Costs^^	8	0.76
Workers' Compensation Costs*	43	1.39
Crime Rates	39	4.78
Number of Bureaucrats☆	23	5.43
State Gas Tax◇	6	0.170%

*Property Tax as a Share of Personal Income

**Sales, Gross Receipts & Excise Taxes as a Share of Personal Income

***Maximum State Tax Rate Applied to State Wage Base as a Share of State Average Annual Pay

^Index Per Capita Personal Health Care Spending Relative to the U.S. Average

^^Index of State Average Revenue Per Kw-hour for Electricity Utilities Relative to U.S. Average

*Workers' Compensation Benefits per \$100 of Covered Wages

☆Full-Time Equivalent State and Local Government Employees per 100 Residents

◇Dollars per Gallon of Gasoline

Source: Small Business Survival Committee, Small Business Survival Index 2003

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